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SUBJECT: SLOW ECONOMIC DEVELOPMENT IN EASTERN CROATIA

1. SUMMARY: Ten years after the war ended in Croatia, officials and business people are attempting to revive the economy in the eastern region of Slavonia, one of the areas most affected by the conflict. Supplementing national efforts to encourage economic development in the region, some local governments are taking matters into their own hands, setting up industrial zones and business incubators. However, many obstacles to economic development remain and it is uncertain if the businesses and jobs will come. END SUMMARY

Attracting New Business, Battling Unemployment

2. In April 2006, Econoffs traveled to the eastern towns of Donji Miholjac, Otok and Bjelovar for a first-hand look at local economic development initiatives. All three towns were affected by the war and high unemployment rates are a chronic problem. While the national unemployment rate in Croatia is about 14%, unemployment rates in some parts of Slavonia are as high as 80%. In Donji Miholjac and Otok, the unemployment rate is between 25-35% and in Bjelovar it is 15%. According to officials in Otok, the unemployment rate is five times higher now than before the war. Before the war, Slavonia was home to many large factories that have since closed or downsized. The OSCE representatives in Vukovar cited the example of a shoe, rubber and plastics factory, which employed 22,500 before the war and now only employs 1000.

3. In order to attract more jobs to Slavonia and take advantage of resources such as forests and agricultural land, these local governments are investing in the infrastructure for economic zones and offering incentives to lure mostly manufacturing businesses including wood, metal and food processing industries. Bjelovar has focused on a successful business incubator that offers office space and support at below market costs for start-up companies in the services sector.

4. These local governments are also partnering with new investors to walk them through the process of acquiring all permits, often an obstacle for investors. Although most of these initiatives started at the local level, officials said they appreciated the financing and technical assistance provided by the national government and thanked the U.S. government for assistance provided by USAID programs.

If you build it, will they come?

¶5. Local officials believe the Slavonian region has comparative advantages in geographic location, natural resources, labor supply, and infrastructure (especially with the planned construction of new highways in the region and the refurbishment of the Danube port of Vukovar) and are hopeful that new investment will come. In the last nine months, contracts have been signed with eleven new investors in Donji Miholjac. These new investments are expected to create three hundred jobs and generate an additional six to nine hundred jobs in indirect employment.

¶6. In addition to manufacturing operations, investors and officials are also interested in building cold storage facilities that would help facilitate the transport of produce from local farms to markets and food processors. According to Kesenija Boros, head of the Veterinary Department and Sector for Harmonization of Regulations, the Ministry of Agriculture also has funds earmarked for the construction of cold storage and other infrastructure. Officials are encouraging farmers in the region to convert production from grains to more profitable fruits and vegetables and to increase the amount of hectares used for orchards in the run-up to EU accession, at which time Croatia's agricultural quotas will be set. Officials are also setting up offices to help farmers take advantage of the European Union Special Accession Program for Agriculture and Rural Development (SAPARD).

Education and Training

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¶7. In addition to providing incentives to new investors, local governments have been surveying their populations to make sure that potential employers have access to an appropriately educated work force. Officials commented that the education system is not preparing students for the current economy. Most high school students and their parents are opting for courses of study such as hairstyling and shop keeping rather than industrial or technical programs. However, since government wage regulations require that a student trained as a shopkeeper must get paid more than an untrained student, most shops end up employing untrained workers and the trained shopkeepers find jobs in factories.

Future Development Uncertain

¶8. While the groundwork for economic revitalization is being laid in Slavonia, it remains to be seen if industry will make a reappearance in Slavonia and if the labor market will develop accordingly.

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